

VZCZCXRO0792
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHDR #0275/01 1201357
ZNR UUUUU ZZH
R 291357Z APR 08
FM AMEMBASSY DAR ES SALAAM
TO RUEHC/SECSTATE WASHDC 7505
INFO RUEHNR/AMEMBASSY NAIROBI 0945
RUEHKM/AMEMBASSY KAMPALA 3151
RUEHLGB/AMEMBASSY KIGALI 1096
RUEHJB/AMEMBASSY BUJUMBURA 2660
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 03 DAR ES SALAAM 000275

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DEPT AF/E FOR JLIDDLE, EEB/TPP/ABT/ATP FOR JANET SPECK

E.O. 12958: N/A

TAGS: [ECON](#) [EAGR](#) [TZ](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES-TANZANIA

REF: STATE 39410

SUMMARY

¶1. Tanzania's annual inflation rose from 8.6 percent in January to 8.9 percent in February 2008, due mainly to higher food prices, according to the National Bureau of Statistics (NBS). NBS and the Bank of Tanzania (BoT) attribute the increasing inflation to higher average prices of cereals and cereal products, sweet potatoes, vegetables, fruits, meat and poultry, legumes, and meals in restaurants. The BoT says the inflationary pressure on food prices is mainly due to a reduced supply of food items and increased transportation costs. Rising food prices present a challenge for the Government of Tanzania (GOT) because in the majority of Tanzanian households, food makes up a disproportionately large part of household spending. The average annual per capita income in Tanzania is \$320. End Summary.

¶2. Maize is the staple and rice is second most essential food consumed in Tanzania, particularly among urban consumers. Other essential commodities are cassava, sorghum/millet, beans and beef. Maize wholesale prices in Dar es Salaam increased by 16% from November 2007 to February 2008, to \$330 per metric ton (MT). This is a 38% increase over the February 2006 price. Similarly, beans (\$755/MT) and rice (\$643/MT) prices increased by \$13 since November 2007.

DEMAND

¶3. On average during the last 5 years Tanzania was 105% self-sufficient on maize. However, despite the statistics, 25-30% of districts reported food shortages due to disparities in the climate and the infrastructure, such as road and railway, in different districts. In 2006, Tanzania became a net importer for rice, importing one third (200,000MT) of its demand.

¶4. Although Tanzanian consumers have not shifted towards alternative commodities, imports of rice, wheat and dairy have increased since 2007 due mainly to a surge in demand for high value processed products by the emerging middle class coupled with the rapidly growing tourist sector. In 2007, Tanzania received about 700,000 tourists, a significant increase. The growing expatriate communities (donors in international NGOs) and foreign investors have created a market for supermarket food products. In 2007, Tanzania spent about \$200 mil on imported food products, mainly rice, wheat and dairy.

¶5. According to the National Household Budget Survey, food accounts for 65% of household expenditures and is highest for rural

households. Average consumption per capita is around 2.6 times higher in Dar es Salaam than in rural areas. Poverty is pervasive in rural areas where 39% of people are below the national income (basic needs) poverty line (26% for urban areas). The World Bank GDP for Tanzania in 2006 was \$12.8 billion (approximately \$324 per capita). About 20% of rural households are below the national food poverty line, as opposed to 13% for urban areas. Increases in food prices are more likely to impact rural areas, particularly in semi-arid areas of the central zone (Dodoma, Singida and Shinyanga) and the south coast of Lindi and Mtwara where incomes are lowest. As food prices rise and account for a larger percentage of household expenditures, Tanzanian households will be forced to reduce their expenditures in other sectors such as health and education.

SUPPLY

¶6. Domestic agricultural production is responding to changes in prices. Planted areas have expanded, although productivity has not improved. While investment in maize and rice production has not increased, there are new approved investments in large scale wheat farms. Some foreign direct investment went to post-harvest operations (e.g. processing) of cereals, significantly to export cash crops, and to some extent livestock in ranches, feedlots, and abattoirs.

¶7. There is a steady increase in the land used for food production. The 2003 census reveal that maize acreage increased from 1.2 mil ha in 1994 to 3.4 ha in 2003. Higher input costs have affected food production. Fertilizer is used only in 23% of the planted areas. The national Strategic Grains Reserve (SGR) increased its stock to 150,000MT as compared to below 100,000MT in 2004. Private food stocks are also believed to have increased significantly.

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¶8. Supply is not affected by shortages of food processing facilities. Processing is not a limitation as most millers operate below their capacity. The major bottlenecks in supply chains are port logistics and poor infrastructure in many areas. Major road projects are underway and the recent privatization of the central and northern railway lines should improve the infrastructure.

¶9. Tanzania has not yet witnessed a shift in production between food and non-food commodities or an increase in the use of food crops for non-food purposes. However, several U.S. and European investors are turning to Tanzania for their bio-fuel projects; 4 projects on ethanol, jatropha, etc are mobilizing on the ground and there are over 10 applications under review by the Tanzania Investment Center (TIC) in collaboration with the Inter-Ministerial Task Force for Bio-Fuel (Vice President's Office). The GOT has formed a task force to formulate a national biofuel policy. Biofuels are a new concept in Tanzania, so public attitudes have not yet been affected.

POLITICAL IMPACT

¶10. There have not been any public protests, violence, or other threats to political stability due to rising food prices. Several women recently appealed to the GOT through editorials in the Swahili press to control the prices of food. The women told the GOT that due to the increased prices of rice, beans, maize flour, sugar, tomatoes, onions, and edible oil, many low income families had been reduced to eating only one meal a day. One woman complained that the price increases have caused marital problems in her household due to misunderstandings on why their expenditures have increased and the money provided by the husband for food is not sufficient. The Executive Director of the Tanzanian Association of Non-Governmental Organizations (TANGO), Ms. Mary Mwingira, suggested the GOT should increase wages at the same rate that food prices are increasing.

ECONOMIC IMPACT

¶11. The Monthly Economic Review by the BoT indicates that annual food inflation increased to 7.8%, higher than 6.9% in 2006. The trade balance has been deteriorating. Although the worsening trade balance is attributed mainly to import of fuel and capital goods for foreign direct investment, the agricultural trade balance is also worsening. While export earnings in 2007 amounted to \$350 million, the food import bill totaled \$200 million.

¶12. Most Tanzanian farmers are subsistence farmers and would not benefit from rising food prices. Almost 19% of population is already below the food budget line, and more will be impoverished by the rising food prices.

ENVIRONMENTAL IMPACT

¶13. Rising food prices continue to have a detrimental impact on deforestation, water availability and quality, soil conservation, and natural resources management. As farmers expand their land, they encroach on fragile marginal and reserve land.

GOVERNMENT POLICY RESPONSE

¶14. In January 2008, the GOT put some regions on food shortage alert and announced a tax waiver on imported maize for a period of w7k-krQFQAQtwQd;w9ure of declining food production with maize volumes having dwindled for the 2007/2008 season, coupled with severe food crisis reports from 21 districts. The waiver was aimed at importing 300,000 tons of maize to offset a food shortage. The Minister of Agriculture, Food, Security and Cooperatives, Peter Msolla, said that as of March 2008, only 6500 tons of maize has been imported despite the GOT's tax waiver as an incentive for importers.

¶15. The Government of Tanzania is releasing grain from its food stocks and importing food. The GOT has set aside 4,200 tons of cereals to sell at a subsidized price. For the past three years the GOT has been providing subsidized fertilizer to the four southern highland regions, the bread basket for Tanzania. The Agricultural Sector Development Strategy (ASDP) is a basket fund with contributions from the government and donors. ASDP has developed a

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strategy to transform agriculture in Tanzania.

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